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SENSITIVE  
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DEPARTMENT FOR EEB/IFD/OMA - JWINKLER AND EEB/CBA -  
DWINSTEAD  
USAID FOR AFR/EA HELLYER AND DALTON  
DEPT PASS TO USTR FOR PATRICK COLEMAN, CECILIA KLEIN, AND  
BARBARA  
GRYNIEWWICZ  
DEPT OF COMMERCE WASHDC FOR ITA MARIA RIVERO  
DEPT OF TREASURY WASHDC FOR REBECCA KLEIN

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SUBJECT: ETHIOPIA'S HOLD OVER THE IMF AND WORLD BANK

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¶1. (SBU) Summary: Both the local International Monetary Fund (IMF) and World Bank (Bank) representatives discussed the Government of Ethiopia's (GoE) strong position when negotiating for additional donor assistance during a October 22 lunch with Embassy officials and visiting AF/E Director. According to the representatives, the GoE masterfully walks the line between its status as one of the poorest nations and touting its consistent double-digit Gross Domestic Product (GDP) growth when seeking additional funding. The IMF representative questioned the quality of the GoE's fiscal data and worried about its increased public spending and debt levels, but admitted his difficulties in finding other reliable data and getting the GoE to open up the books of the debt-laden state-owned enterprises (SoEs). End Summary.

¶2. (SBU) Local IMF and Bank representatives discussed the clever negotiating skills of the GoE with CDA Meece, visiting AF/E Director Geeta Pasi and EconOff during an October 22 lunch. Both IMF Resident Representative Sukhwinder Singh and Bank Acting Country Director Jeeva Perumalpillai-Essex indicated the GoE is adept at playing both sides of the coin to assure assistance--from the impoverished country side to the booming economic growth side. They asked, "what can we do?" with the GoE when it comes up with good arguments on both sides when negotiating for increased funding. Singh stated the GoE often emphasizes the low income status of Ethiopia while citing recent IMF funding to wealthier countries during its negotiations. Perumalpillai-Essex commented on the GoE's well developed sense of timing, stating that she expects the GoE to request additional Bank disbursements right before the end of the year when Ethiopia's foreign exchange reserves will be low and officially counted. (Note: Asking the Bank for foreign exchange inflows privately at that time will reveal Ethiopia's desperate need for assistance, while publicly the Bank-boosted reserves will count as another GoE macroeconomic success story. End Note.)

¶3. (SBU) Singh recounted week-long negotiations between the

IMF and the GoE on the Exogenous Shocks Facility (ESF) package approved within the past year. He stated that the GoE insisted that they were going to attain 11 percent GDP growth in the fiscal year ending June 2009. The IMF continually questioned the GoE's ability to do so given all of the internal and external strains on Ethiopia's economy and in the end told the GoE that if it is able to grow GDP at 11 percent then it does not need IMF ESF assistance. During the next and final day of negotiations, the GoE retracted a bit and reported it would only reach 10 percent GDP growth in 2009. The IMF then relented and agreed to an ESF loan (Note: The IMF issued Ethiopia a USD 50 million ESF loan in January 2009 and a USD 241 million loan in August 2009. End Note.).

14. (SBU) Singh admitted he questions the GoE's budget numbers, but stated the IMF has to use them since there are no other reliable figures. He expressed concern not only about the growth figures, but the GoE's recent public spending and recent trends to increase debt. Singh also said the GoE refuses to budge on opening up the books of SoEs and these requests often invoke strong negative reactions from GoE officials (Note: The SoEs reportedly have more debt on their books than the GoE itself. End Note.). He went on to say the IMF believes Ethiopia's real exchange rate is still overvalued even after Prime Minister Meles agreed to the recent 10 percent Birr devaluation when the central bank governor and finance minister were hesitant to do so.

15. (SBU) Singh remarked that the GoE often compares itself to the Asian Tiger countries due to its historical high growth, but when the IMF points out various macroeconomic problems Ethiopia is dealing with that the Asian Tigers did not, the GoE only focuses on the data that supports its optimistic conclusions. For example, Ethiopia is battling high

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inflation while most Asian Tigers did not; however, the GoE focuses on the fact that South Korea struggled with high inflation in one year of its growth boom. In response to CDA Meece's inquiry, Singh acknowledged that Ethiopia's growth spurt will have to end at some point; however, he said the end is difficult to predict when the country continues to receive significant levels of one-off donor assistance and at least selectively produce decent economic performance.

16. (SBU) Comment: Given Ethiopia's status as a populous nation dealing with extreme poverty, the Bank stands in the same weak position the U.S. does when negotiating assistance packages. The GoE knows donors will not pull out of Ethiopia and leave millions of people to starve to death. The IMF struggles as elsewhere to steer a course above minimally-acceptable economic governance of policies. The lack of consequences makes it quite difficult to push the GoE on certain objectives such as fiscal transparency and other conditionalities. End Comment.  
MEECE